

**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE DAVISS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the audit of the Daviess County Fiscal Court for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the governmental activities, the business activities, each major fund, and the aggregate remaining fund information for the Daviess County Fiscal Court. In accordance with OMB Circular A-133, we have issued an unqualified opinion on Daviess County's compliance with requirements applicable to each major program.

Financial Condition:

The fiscal court had net assets of \$76,601,126 as of June 30, 2003. The fiscal court had unrestricted net assets of \$12,964,843 in its governmental funds as of June 30, 2003, with total net assets of \$72,242,820. In its enterprise fund, total net cash and cash equivalents were \$1,866,255 with total net assets of \$4,358,306. The fiscal court had total debt principal as of June 30, 2003 of \$15,037,444 with \$1,589,000 due within the next year.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
DAVISS COUNTY OFFICIALS.....	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	15
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	18
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	22
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	26
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	31
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS	35
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS - MODIFIED CASH BASIS	39
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS.....	43
NOTES TO FINANCIAL STATEMENTS.....	46
SUPPORTING SCHEDULES:	
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS	65
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	69
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	73
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	76
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	81
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	85
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	87
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	91
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	95
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Daviess County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Daviess County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Daviess County, Kentucky's basic financial statements. The accompanying supplementary information, and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 22, 2004, on our consideration of Daviess County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 22, 2004

DAVIESS COUNTY OFFICIALS

For The Year Ended June 30, 2003

Fiscal Court Members:

Reid Haire	County Judge/Executive
Bruce Kunze	Commissioner
Jim Lambert	Commissioner
Mike Riney	Commissioner

Other Elected Officials:

Robert Kirtley	County Attorney
David Osborne	Jailer
J. Michael Libs	County Clerk
Susan Tierney	Circuit Court Clerk
Keith Cain	Sheriff
Ron Durbin	Property Valuation Administrator
Bob Howe	Coroner

Appointed Personnel:

Anthony Sook	County Treasurer
--------------	------------------



Daviess County Fiscal Court

COUNTY JUDGE/EXECUTIVE
Reid Haire

COUNTY ATTORNEY
Robert M. Kirtley

Daviess County Courthouse
P. O. Box 1716
Owensboro, Kentucky 42302-1716
Telephone: (270) 685-8424
Fax: (270) 685-8469
www.daviessky.org

COUNTY COMMISSIONERS
Bruce Kunze - Central Division
Jim Lambert - East Division
Mike Riney - West Division

Management's Discussion and Analysis June 30, 2003

The financial management of Daviess County, Kentucky offers readers of Daviess County's financial statements this narrative overview and analysis of the financial activities of Daviess County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in financial statements and the notes to the financial statements.

Financial Highlights.

- Daviess County had net assets of \$76,601,126 as of June 30, 2003. The fiscal court had unrestricted net assets of \$12,964,843 in the governmental activities as of June 30, 2003, with total net assets of \$72,242,820. In the enterprise fund, cash and cash equivalents were \$1,866,255 with total assets of \$4,358,306. Total debt for governmental activities principal as of June 30, 2003 was \$15,037,444 with \$1,589,000 due within one year.
- The governmental activities total net assets decreased by \$1,587,530 from the prior year. This decrease is primarily due to depreciation expense.
- At the close of the current fiscal year, Daviess County governmental funds reported current assets of \$14,028,180. Of this amount, \$12,783,587 is available for spending at the government's discretion (unreserved fund balance).
- Daviess County's total indebtedness at the close of fiscal year June 30, 2003 was \$15,037,444, of which \$13,448,444 is long-term debt (due after 1 year) and \$1,589,000 is short-term debt (to be paid within 1 year). Debt additions were \$0, and debt reductions were \$2,234,397 for a net decrease of \$2,234,397 for the year.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Daviess County's basic financial statements. Daviess County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules do not include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these comparisons will be presented next year.

Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Daviess County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Daviess County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Daviess County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Daviess County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Daviess County has two business type activities—Jail Canteen and the Solid Waste Operating Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Daviess County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Daviess County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Governmental Funds. (Continued)

Daviess County maintains (9) nine individual governmental funds. Information is presented separately for the major funds and combined for the non-major governmental in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- Solid Waste Closure Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- Solid Waste Post-Closure Fund
- Solid Waste Debt-Service Fund
- Solid Waste Construction Fund
- Daviess County Public Improvement Corporation

Daviess County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Daviess County's Enterprise and Internal Service Fund.

Enterprise Funds:

Jail Canteen Fund - The Jailer maintains this enterprise fund to account for the sale of snacks, sodas, and other items to inmates.

Solid Waste Operating Fund - The County maintains this enterprise fund to account for the activities of the landfill.

Internal Service Fund:

Health Insurance Fund – The County maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Net Assets.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1
Daviess County's Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2002	2003	2002	2003	2002	2003
Assets						
Current and other assets	14,916,330	14,209,436	1,341,782	1,866,255	16,258,112	16,075,691
Capital assets	76,183,721	73,070,828	3,124,902	2,492,051	79,308,623	75,562,879
Total Assets	91,100,051	87,820,264	4,466,684	4,358,306	97,476,155	91,638,570
Liabilities						
Current and other liabilities	2,234,397	1,589,000	0	0	2,234,397	1,589,000
Long-term liabilities	15,037,444	13,448,444	0	0	15,037,444	13,448,444
Total Liabilities	17,271,841	15,037,444	0	0	17,271,841	15,037,444
Net Assets						
Invested in capital assets, net of related debt	58,911,880	58,033,384	3,124,902	2,492,051	62,036,782	60,525,435
Restricted	1,075,801	1,244,593	0	0	1,075,801	1,244,593
Unrestricted	13,840,529	12,964,843	1,341,782	1,866,255	15,182,311	14,831,098
Total Net Assets	73,828,210	72,242,820	4,466,684	4,358,306	78,294,894	76,601,126

Changes in Net Assets.

Governmental Activities. Daviess County's net assets decrease by \$1,587,530 in fiscal year 2003. Key elements of this are as follows:

- Current Assets And Cash Decreased \$706,894, Due To Expenditures From Capital Projects And Jail Operations.
- Investment In Capital Assets And Infrastructure, Net Of Related Debt Decreased \$878,496 Primarily Due To Depreciation Expense.
- Current And Long Term Liabilities Decreased By \$2,234,397, Due To Payment of Principal on Debt.
- General Revenues Were \$12,487,883 And Total Revenues Were \$22,682,661 As Reflected In The Statement Of Activities
- Expenditures Totaled \$24,270,191 As Reflected In The Statement Of Activities.

**Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Changes in Net Assets. (Continued)

Business-type Activities. Daviess County's net assets decreased by \$108,378 in fiscal year 2003. Key elements are as follows:

- Current Assets And Cash Increased By \$524,473.
- Investment In Capital And Infrastructure Net Of Related Debt Decreased By \$632,851.
- Total Revenue Were \$4,312,174 As Reflected In The Statement Of Activities.
- Expenditures Totaled \$3,352,340 As Reflected In The Statement Of Activities.

Financial Analysis of the County's Funds.

As noted earlier, Daviess County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Daviess County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2003 fiscal year, the combined ending fund balances of County governmental funds were \$14,028,180. Approximately 91% (\$12,783,587) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$1,244,593) is reserved to indicate that it is not available for new spending because it is legally restricted for various reasons.

The County has (4) four major governmental, and (5) non-major funds.

Major Funds

- General Fund
- Road and Bridge Fund
- Jail Fund
- Solid Waste Closure Fund

Non-major Funds

- Local Government Economic Assistance Fund
- Solid Waste Post Closure Fund
- Solid Waste Debt Service Fund
- Solid Waste Construction Fund
- Daviess County Public Improvement Corporation

1. The General Fund is the chief operating fund of Daviess County. At the end of June 30, 2003 fiscal year, unreserved fund balance of the General Fund was \$8,212,699. The County received \$8,360,438 in real and personal property, motor vehicle, and other taxes for approximately 54% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 46% of revenues.
2. The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. The Road and Bridge Fund had \$242,793 fund balance at June 30, 2003. The fiscal year 2003 expenditures for Road and Bridge Fund were \$2,771,713.

**Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Financial Analysis of the County's Funds. (Continued)

3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2003 of \$148,194. The Jail Fund received \$3,215,766 for intergovernmental fees, primarily for housing prisoners. The General Fund contributed \$200,000 to the jail operations.
4. The Solid Waste Closure Fund had a fund balance of \$1,928,396 as of June 30, 2003. These funds are held for future closure activity at the West Daviess County Landfill.
5. The Local Government Economic Assistance Fund had a fund balance of \$678,980, an increase of \$210,408 over the previous fiscal year end.
6. The Solid Waste Post-Closure Fund had a balance of \$1,159,019 as of June 30, 2003 and these funds are held for future post-closure cost activity at the West Daviess County Landfill.
7. The Solid Waste Debt Service Fund had a fund balance of \$1,090,224 as of June 30, 2003.
8. The Solid Waste Construction Fund had a fund balance of \$85,574 at of June 30, 2003. These funds are used for construction in progress at the West Daviess County Landfill.
9. The Daviess County Public Improvement Corporation Fund had a balance of \$482,301 as of June 30, 2003.

Proprietary Funds Overview. The County's proprietary fund financial statements provide the same type of information found in the government-wide statements, but in more detail.

Daviess County has (2) two enterprise-type proprietary funds, they are:

- Jail Canteen Fund
- Solid Waste Operating Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2003 fiscal year, amounted to \$246,779 and total assets were \$278,522.

The Solid Waste Operating Fund at the end of June 30, 2003 fiscal year had \$1,619,476 in unrestricted assets, \$2,460,308 invested in capital assets, and total net assets of \$4,079,784.

General Fund Budgetary Highlights.

Daviess County's general fund budget was amended by \$300,000 during the fiscal year, however budgetary transfers of \$300,000 were made to other funds.

Actual revenues were \$126,589 short of the budget. This variance was due to Intergovernmental Revenue and Interest Income. Expenditures on some grants were not reimbursed until after the end of the fiscal year, and the interest on investments remains depressed.

Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Capital Assets and Debt Administration.

Capital Assets. Daviess County's investment in capital assets for its governmental and business type activities as of June 30, 2003, amount to \$75,562,879 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and current infrastructure additions.

Major capital asset events during the 2003 fiscal year included the continued construction of the landfill, heavy equipment for solid waste and road operations, and the purchase of several vehicles.

Additional information of the County's capital assets can be found in Note 3 of this report.

Table 2
Daviess County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2002	2003	2002	2003	2002	2003
Infrastructure Assets	55,348,652	52,265,294	0	0	55,348,652	52,265,294
Land & Land Improvements	913,309	997,309	316,250	316,250	1,229,559	1,313,559
Const. In Progress	20,729	137,624	0	0	20,729	137,624
Bldgs. & Land Improvements	17,173,114	16,501,352	1,320,152	886,374	18,493,266	17,387,726
Other Equip.	0	0	0	0	0	0
Vehicles & Equip.	2,727,917	3,169,249	1,488,500	1,289,427	4,216,417	4,458,676
Total Net Capital Assets	76,183,721	73,070,828	3,124,902	2,492,051	79,308,623	75,562,879

Long-Term Debt. At the end of the 2003 fiscal year, Daviess County had total bonded debt outstanding of \$5,625,000 from General Obligation Bonds. The County has (4) four financing obligations totaling \$9,412,444.

**Daviess County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2004 fiscal year budget:

- The 2004 Fiscal Year Adopted Budget Continues Most Services At Current Levels.
- Program Cuts At The State Level, Particularly Relating To The Cost Of Housing Prisoners, May Have A Negative Impact On Funding For County Programs.
- Economic Factors Indicate Continued Growth For Daviess County.
- In Late Calendar Year 2003, The County Intends To Issue A Bond In The Amount Of \$10,990,000. The Bond Will Be Financed In 2 (Two) Segments: 2003A, In The Amount Of \$8,720,000, Will Be used to refinance the leasing agreement on the detention facility and to construct a new Government Annex, 2003B, In The Amount Of \$2,270,000, Will Be Used To Renovate 2 (Two) Tourism Facilities In Daviess County. The 2003B Bond Will Be Repaid From Receipts From The Transient Room Tax.

Requests For Information.

This financial report is designed to provide a general overview of Daviess County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Daviess County Treasurer, 212 St Ann Street, Second Floor, Owensboro, KY, 42302.

DAVISS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

DAVIESS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 14,209,436	\$ 1,866,255	\$ 16,075,691
Total Current Assets	14,209,436	1,866,255	16,075,691
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	997,309	316,250	1,313,559
Land Improvements		413,491	413,491
Construction in Progress	137,624		137,624
Buildings	16,501,352	472,883	16,974,235
Vehicles and Equipment	3,169,249	1,289,427	4,458,676
Infrastructure Assets - Net of Depreciation	52,265,294		52,265,294
Total Noncurrent Assets	73,070,828	2,492,051	75,562,879
Total Assets	87,280,264	4,358,306	91,638,570
LIABILITIES			
Current Liabilities:			
Bonds Payable	420,000		420,000
Financing Obligations Payable	1,169,000		1,169,000
Total Current Liabilities	1,589,000		1,589,000
Noncurrent Liabilities:			
Bonds Payable	5,205,000		5,205,000
Financing Obligations Payable	8,243,444		8,243,444
Total Noncurrent Liabilities	13,448,444		13,448,444
Total Liabilities	15,037,444		15,037,444
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	58,033,384	2,492,051	60,525,435
Restricted For:			
Capital Projects	85,574		85,574
Post-Closure Care Costs	1,159,019		1,159,019
Unrestricted	12,964,843	1,866,255	14,831,098
Total Net Assets	\$ 72,242,820	\$ 4,358,306	\$ 76,601,126

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

DAVISS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

DAVIESS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 8,141,475	\$ 794,919	\$ 1,332,882	\$ 2,673,625
Protection to Persons and Property	6,334,853	324,547	3,366,337	
General Health and Sanitation	408,358	69,684		
Social Services	246,892			
Recreation and Culture	1,292,646	22,157		
Roads	6,196,552	10,773	1,359,854	240,000
Airports	54,166			
Bus Services	309,518			
Interest on Long Term Debt	711,073			
Capital Projects	574,658			
Total Governmental Activities	24,270,191	1,222,080	6,059,073	2,913,625
Business-type Activities:				
Jail Canteen Fund	489,723	433,339		
Solid Waste Operating Fund	2,862,617	3,786,408		
Total Business-type Activities	3,352,340	4,219,747		
Total Primary Government	\$ 27,622,531	\$ 5,441,827	\$ 6,059,073	\$ 2,913,625

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

Excess Fees

Legal Process Tax/Fee

Title IV-D

Land/Equipment Sales

Miscellaneous Revenues

Vending Commissions

Telephone Commissions

Farm Income

Insurance Reimbursement

Other Receipts

Interest Received

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (3,340,049)	\$	\$ (3,340,049)
(2,643,969)		(2,643,969)
(338,674)		(338,674)
(246,892)		(246,892)
(1,270,489)		(1,270,489)
(4,585,925)		(4,585,925)
(54,166)		(54,166)
(309,518)		(309,518)
(711,073)		(711,073)
(574,658)		(574,658)
(14,075,413)		(14,075,413)
	(56,384)	(56,384)
	923,791	923,791
	867,407	867,407
\$ (14,075,413)	\$ 867,407	\$ (13,208,006)
3,803,778		3,803,778
625,771		625,771
788,247		788,247
3,142,702		3,142,702
1,095,798		1,095,798
112,933		112,933
649,472		649,472
255,523		255,523
235,346		235,346
94		94
135,869		135,869
1,420		1,420
20,485		20,485
237,362	70,379	307,741
314,871	22,048	336,919
1,068,212	(1,068,212)	
12,487,883	(975,785)	11,512,098
(1,587,530)	(108,378)	(1,695,908)
73,830,350	4,466,684	78,297,034
\$ 72,242,820	\$ 4,358,306	\$ 76,601,126

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>	<u>Solid Waste Closure Fund</u>	<u>Non- Major Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 8,212,699	\$ 242,793	\$ 148,194	\$ 1,928,396	\$ 3,496,098
Total Assets	<u>\$ 8,212,699</u>	<u>\$ 242,793</u>	<u>\$ 148,194</u>	<u>\$ 1,928,396</u>	<u>\$ 3,496,098</u>
FUND BALANCES					
Fund Balances:					
Reserved:					
Special Revenue Fund					1,159,019
Capital Projects Fund					85,574
Unreserved:					
General Fund	\$ 8,212,699	\$	\$	\$	\$
Special Revenue Funds		242,793	148,194	1,928,396	678,980
Debt Service Funds					1,572,525
Total Fund Balances	<u>\$ 8,212,699</u>	<u>\$ 242,793</u>	<u>\$ 148,194</u>	<u>\$ 1,928,396</u>	<u>\$ 3,496,098</u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

	Total Governmental Funds
ASSETS	
Cash and Cash Equivalents	\$ 14,028,180
Total Assets	<u>\$ 14,028,180</u>

FUND BALANCES

Fund Balances:

Reserved:

Special Revenue Fund	1,159,019
Capital Projects Fund	85,574

Unreserved:

General Fund	\$ 8,212,699
Special Revenue Funds	2,998,363
Debt Service Funds	<u>1,572,525</u>

Total Fund Balances	<u>\$ 14,028,180</u>
---------------------	----------------------

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 14,028,180
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	131,809,759
Internal Service Funds are used by management to charge the cost of individual funds. Assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	181,256
Accumulated Depreciation	(58,738,931)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year - Bonds and Financing Obligations Principal Payments	(1,589,000)
Due In More Than One Year - Bonds and Financing Obligations Principal Payments	<u>(13,448,444)</u>
Net Assets Of Governmental Activities	<u>\$ 72,242,820</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

DAVISS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	General Fund	Road And Bridge Fund	Jail Fund	Solid Waste Closure Fund
REVENUES				
Taxes	\$ 8,359,217	\$	\$	\$
In Lieu Tax Payments	1,221			
Excess Fees	1,187,505			
Licenses and Permits	226,588			
Intergovernmental	4,683,782	1,454,119	3,215,766	
Charges for Services	69,684		311,747	
Miscellaneous	631,939	25,149	189,745	
Interest	197,640	6,729	9,897	26,023
Total Revenues	<u>15,357,576</u>	<u>1,485,997</u>	<u>3,727,155</u>	<u>26,023</u>
EXPENDITURES				
General Government	4,797,629			
Protection to Persons and Property	2,118,793		4,279,380	
General Health and Sanitation	231,845			13,976
Social Services	247,765			
Recreation and Culture	1,393,030			
Roads		2,770,248		
Airports	54,166			
Bus Services	309,518			
Debt Service	322,286		1,123,957	
Capital Projects	574,658			
Administration	3,166,099	1,465	8,990	
Total Expenditures	<u>13,215,789</u>	<u>2,771,713</u>	<u>5,412,327</u>	<u>13,976</u>
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>2,141,787</u>	<u>(1,285,716)</u>	<u>(1,685,172)</u>	<u>12,047</u>
Other Financing Sources (Uses)				
Proceeds From Sale of Capital Assets			75,000	
Transfers From Other Funds		1,500,000	200,000	290,784
Transfers To Other Funds	(1,756,726)			
Total Other Financing Sources (Uses)	<u>(1,756,726)</u>	<u>1,500,000</u>	<u>275,000</u>	<u>290,784</u>
Net Change in Fund Balances	385,061	214,284	(1,410,172)	302,831
Fund Balances - Beginning	7,827,638	28,509	1,558,366	1,625,565
Fund Balances - Ending	<u>\$ 8,212,699</u>	<u>\$ 242,793</u>	<u>\$ 148,194</u>	<u>\$ 1,928,396</u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

Non- Major Funds	Total Governmental Funds
	\$ 8,359,217
	1,221
	1,187,505
	226,588
853,958	10,207,625
	381,431
	846,833
74,582	314,871
928,540	21,525,291
	4,797,629
	6,398,173
293,041	538,862
	247,765
	1,393,030
351,595	3,121,843
	54,166
	309,518
1,485,069	2,931,312
	574,658
	3,176,554
2,129,705	23,543,510
(1,201,165)	(2,018,219)
	75,000
834,154	2,824,938
	(1,756,726)
834,154	1,143,212
(367,011)	(875,007)
3,863,109	14,903,187
\$ 3,496,098	\$ 14,028,180

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**DAVIESS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2003

DAVIESS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (875,007)
--	--------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Book Value of Building Sold	(242,000)
Book Value of Land Sold	(46,000)
Capital Outlay - Purchase of Land	130,000
Capital Outlay	1,187,620
Construction in Progress	116,895
Depreciation Expense	(4,259,408)
Internal Service Fund Income	165,973

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations	1,834,397
Bond Payment	<u>400,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (1,587,530)</u></u>
---	------------------------------

THIS PAGE LEFT BLANK INTENTIONALLY

DAVIESS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

DAVIESS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activites - Enterprise Funds</u>			Governmental
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Activities- Internal Service Fund
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 246,779	\$ 1,619,476	\$ 1,866,255	\$ 181,256
Total Current Assets	<u>246,779</u>	<u>1,619,476</u>	<u>1,866,255</u>	<u>181,256</u>
Noncurrent Assets:				
Capital Assets:				
Land and Improvements		316,250	316,250	
Land Improvements		7,873,501	7,873,501	
Buildings		584,197	584,197	
Vehicles and Equipment	42,760	3,561,868	3,604,628	
Less Accumulated depreciation	(11,017)	(9,875,508)	(9,886,525)	
Total Noncurrent Assets	<u>31,743</u>	<u>2,460,308</u>	<u>2,492,051</u>	
Total Assets	<u>278,522</u>	<u>4,079,784</u>	<u>4,358,306</u>	<u>181,256</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	31,743	2,460,308	2,492,051	
Unrestricted	246,779	1,619,476	1,866,255	181,256
Total Net Assets	<u>\$ 278,522</u>	<u>\$ 4,079,784</u>	<u>4,358,306</u>	<u>\$ 181,256</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

DAVISS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	Jail	Solid		Activities-
	Canteen	Waste		Internal
	Fund	Operating	Totals	Service
		Fund		Fund
Operating Revenues				
Canteen Receipts	\$ 433,339	\$	\$ 433,339	\$
Refunds/Reimbursements				325,910
Off-Sight Waste Management Fee		2,600	2,600	
Tipping Fees		3,749,426	3,749,426	
Recycling Receipts		34,382	34,382	
Other Receipts		70,379	70,379	
Total Operating Revenues	433,339	3,856,787	4,290,126	325,910
Operating Expenses				
Administration Fees				161,476
Cost of Sales	295,142		295,142	
Educational and Recreational	155,564		155,564	
Personnel Costs	25,385	1,258,547	1,283,932	
Insurance		47,504	47,504	
Repairs & Maintenance		214,521	214,521	
Telephone		8,768	8,768	
Utilities		14,225	14,225	
Fuel & Oil		179,202	179,202	
Materials & Supplies		37,840	37,840	
Tires & Tubes		79,976	79,976	
Uniforms		10,227	10,227	
Sampling/Monitoring		41,468	41,468	
Consulting Engineering		10,250	10,250	
Equipment Rental		81,021	81,021	
Environmental Remediation Fee		72,340	72,340	
Leachate Disposal		14,228	14,228	
Registrations, Conferences & Training		3,211	3,211	
Office Supplies		3,201	3,201	
Gravel		24,135	24,135	
Special Waste Diversion		6,792	6,792	
Tire Disposal		15,066	15,066	
Legal Fees		5,325	5,325	
Data Processing		7,813	7,813	
Food - Work Release		15,826	15,826	

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

	<u>Business-Type Activites - Enterprise Funds</u>			Governmental
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Activities- Internal Service Fund
Operating Expenses (Continued)				
Prisoner Uniforms - Footwear	\$	\$ 8,370	\$ 8,370	\$
Tools		7,046	7,046	
Depreciation	5,758	691,673	697,431	
Miscellaneous	7,874	4,042	11,916	
Total Operating Expenses	489,723	2,862,617	3,352,340	161,476
Operating Income (Loss)	(56,384)	994,170	937,786	164,434
Nonoperating Revenues (Expenses)				
Interest Income	3,446	18,602	22,048	1,539
Inmate Pay From State	8,483		8,483	
Inmate Refunds	(8,483)		(8,483)	
Total Nonoperating Revenues (Expenses)	3,446	18,602	22,048	1,539
Net Income (Loss) Before Transfers	(52,938)	1,012,772	959,834	165,973
Transfers Out		(1,068,212)	(1,068,212)	
Change In Net Assets	(52,938)	(55,440)	(108,378)	165,973
Total Net Assets - Beginning	331,460	4,135,224	4,466,684	15,283
Total Net Assets - Ending	\$ 278,522	\$ 4,079,784	\$ 4,358,306	\$ 181,256

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

DAVISS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Activities- Internal Service Fund
Cash Flows From Operating Activities				
Receipts From Customers	\$ 433,339	\$ 3,786,408	\$ 4,219,747	\$
Other Receipts		70,379	70,379	325,910
Administrative Expenses		(41,260)	(41,260)	(161,476)
Insurance		(47,504)	(47,504)	
Repairs & Maintenance		(214,521)	(214,521)	
Fuel & Oil		(179,202)	(179,202)	
Materials & Supplies		(37,840)	(37,840)	
Tires & Tubes		(79,976)	(79,976)	
Equipment Rental		(81,021)	(81,021)	
Equipment Environmental Remediation Fee		(72,340)	(72,340)	
Professional Fees		(57,043)	(57,043)	
Other Operating Expenses		(101,690)	(101,690)	
Cost of Sales	(295,142)		(295,142)	
Educational and Recreational	(155,564)		(155,564)	
Personnel Costs	(25,385)	(1,258,547)	(1,283,932)	
Miscellaneous	(7,874)		(7,874)	
Net Cash (Used) Provided By Operating Activities	(50,626)	1,685,843	1,635,217	164,434
Cash Flows From Noncapital Financing Activities				
Inmate Pay From State	8,483		8,483	
Inmate Refunds on Accounts	(8,483)		(8,483)	
Transfers To Other Funds		(1,068,212)	(1,068,212)	
Net Cash (Used) By Noncapital Financing Activities		(1,068,212)	(1,068,212)	
Cash Flows From Capital and Related Financing Activities				
Capital Assets	(8,400)	(56,180)	(64,580)	
Net Cash (Used) By Capital and Related Financing Activities	(8,400)	(56,180)	(64,580)	
Cash Flows From Investing Activities				
Interest Earned	3,446	18,602	22,048	1,539
Net Cash Provided By Investment Activities	3,446	18,602	22,048	1,539

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Activities- Internal Service Fund
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (55,580)	\$ 580,053	\$ 524,473	\$ 165,973
Cash and Cash Equivalents - July 1	302,359	1,039,423	1,341,782	15,283
Cash and Cash Equivalents - June 30	<u>\$ 246,779</u>	<u>\$ 1,619,476</u>	<u>\$ 1,866,255</u>	<u>\$ 181,256</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (56,384)	\$ 994,170	\$ 937,786	\$ 164,434
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities				
Depreciation Expense	<u>5,758</u>	<u>691,673</u>	<u>697,431</u>	
Total Cash Provided By Operating Activities	<u>\$ (50,626)</u>	<u>\$ 1,685,843</u>	<u>\$ 1,635,217</u>	<u>\$ 164,434</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	46
NOTE 2.	DEPOSITS	52
NOTE 3.	CAPITAL ASSETS.....	53
NOTE 4.	GENERAL OBLIGATION BONDS.....	55
NOTE 5.	FINANCING OBLIGATIONS.....	57
NOTE 6.	SHORT-TERM DEBT.....	59
NOTE 7.	LANDFILL CLOSURE AND POST - CLOSURE COSTS.....	59
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	60
NOTE 9.	DEFERRED COMPENSATION	60
NOTE 10.	INSURANCE	60
NOTE 11.	SELF-INSURANCE.....	61
NOTE 12.	SUBSEQUENT EVENTS.....	61
NOTE 13.	CHANGES IN ACCOUNTING PRINCIPLES.....	61
NOTE 14.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	62

**DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term liabilities are recorded on the statement of net assets and include bonds and financing obligations. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Daviess County include the funds, agencies, boards, and entities for which the fiscal court (primary government) is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

Daviess County Public Improvement Corporation

The Daviess County Fiscal Court appoints the Public Improvement Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Improvement Corporation. Financial information for the Public Improvement Corporation is blended within Daviess County's financial statements. All activities of the Public Improvement Corporation are accounted for within a nonmajor (debt service) fund.

Daviess County Fiscal Court has no discretely presented component units.

DAVISS COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Daviess County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for election of the above officials from the geographic area constituting Daviess County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These officials are not part of the Daviess County reporting entity.

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

DAVIESS COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Closure Fund - The purpose of this fund is to account for the \$2 collected from every ton deposited at the County's contained landfill. These funds may be used for landfill closure costs.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, Solid Waste Post Closure Fund, Solid Waste Debt Service Fund, Solid Waste Construction Fund, and Daviess County Public Improvement Corporation.

Special Revenue Funds:

The Road and Bridge Fund, Jail Fund, Solid Waste Closure Fund, Local Government Economic Assistance Fund, and Solid Waste Post Closure Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Solid Waste Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds:

The Solid Waste Debt Service Fund and Daviess County Public Improvement Corporation are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1, following the assessment, and subject to lien and sale the 3d Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund and charges to customers for tipping fees in the Solid Waste Operating Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB statements or interpretations.

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Solid Waste Operating Fund - The primary purpose of this fund is to account for the activities of the landfill. The primary sources of revenue for this fund are from charges to customers for tipping fees.

DAVISS COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Internal Service Fund

The primary government reports the following internal service fund:

Health Insurance Fund - The Fiscal Court maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings and Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	5-10
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 25,000	10-50

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Deposits

The County maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$118,860 of public funds uninsured and unsecured. Also, as of August 31, 2002, collateral and FDIC insurance together did not equal or exceed the amount on deposit.

The County's deposits are categorized below to give an indication of the level of risk assumed by the County as of June 30, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 602,955
Collateralized with securities held by pledging depository institution in the County's name	15,876,226
Uncollateralized and uninsured	<u>118,860</u>
Total	<u><u>\$ 16,598,041</u></u>

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 20,729	\$ 116,895	\$ 0	\$ 137,624
Land and Land Improvements	913,309	130,000	(46,000)	997,309
Total Capital Assets Not Being Depreciated	934,038	246,895	(46,000)	1,134,933
Capital Assets, Being Depreciated:				
Buildings	22,231,209	62,379	(484,000)	21,809,588
Vehicles and Equipment	6,814,905	965,694		7,780,599
Infrastructure	100,925,092	159,547		101,084,639
Total Capital Assets Being Depreciated	129,971,206	1,187,620	(484,000)	130,674,826
Less Accumulated Depreciation For:				
Buildings	(5,058,095)	(492,141)	242,000	(5,308,236)
Vehicles and Equipment	(4,086,988)	(524,362)		(4,611,350)
Infrastructure	(45,576,440)	(3,242,905)		(48,819,345)
Total Accumulated Depreciation	(54,721,523)	(4,259,408)	242,000	(58,738,931)
Total Capital Assets, Being Depreciated, Net	75,249,683	(3,071,788)	(242,000)	71,935,895
Governmental Activities Capital Assets, Net	\$ 76,183,721	\$ (2,824,893)	\$ (288,000)	\$ 73,070,828

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2003 was as follows: (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government: (Continued)				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 316,250			\$ 316,250
Total Capital Assets Not Being Depreciated	316,250			316,250
Capital Assets, Being Depreciated:				
Land Improvements	7,873,501			7,873,501
Buildings	584,197			584,197
Vehicles and Equipment	3,540,048	64,580		3,604,628
Total Capital Assets Being Depreciated	11,997,746	64,580		12,062,326
Less Accumulated Depreciation For:				
Land Improvements	(7,039,509)	(420,501)		(7,460,010)
Buildings	(98,037)	(13,277)		(111,314)
Vehicles and Equipment	(2,051,548)	(263,653)		(2,315,201)
Total Accumulated Depreciation	(9,189,094)	(697,431)		(9,886,525)
Total Capital Assets, Being Depreciated, Net	2,808,652	(632,851)		2,175,801
Business-Type Activities Capital Assets, Net	\$ 3,124,902	\$ (632,851)	\$	\$ 2,492,051

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 132,311
Protection to Persons and Property	693,609
General Health and Sanitation	11,344
Recreation and Culture	40,138
Roads, Including Depreciation of General Infrastructure Assets	3,382,006
Total Depreciation Expense - Governmental Activities	\$ 4,259,408
<u>Business-Type Activities</u>	
Jail Canteen Fund	\$ 5,758
Solid Waste Operating Fund	691,673
Total Depreciation Expense - Business Activities	\$ 697,431

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. General Obligation Bonds

A. First Mortgage Refunding Revenue Bonds, Series 1994A

The Daviess County Public Improvement Corporation entered into a bond issue on July 1, 1994 for the purpose of 1) paying the entire principal and interest of the Daviess County, Kentucky Judicial Center Building and Improvement Revenue Bonds, Series 1989 (the "Prior Bonds"); 2) to fund a Debt Service Reserve Fund; 3) to pay for the costs of issuance of Bonds; and 4) to pay for certain costs of equipment to be purchased by the County. The Corporation and Daviess County have entered into an annually renewable lease, dated as of July 1, 1994, wherein the County shall lease from the Corporation the project and project site. In addition, the Bonds will be secured by a foreclosable first mortgage lien on the Project pursuant to the Mortgage Deed of Trust, (the "Mortgage") and by the assignment by the Corporation of all of the Corporation's right, title and interest to the Lease with the County.

The Daviess County Public Improvement Corporation First Mortgage Refunding and Revenue Bonds, Series 1994A were issued July 1, 1994, for \$4,270,000. The Daviess County Public Improvement Corporation entered into a sublease with the Administrative Office of the Courts (AOC), whereby the AOC will make semi-annual payments directly to the bonding agent to partially fund the debt service for the bond issue.

Interest on the bonds is payable each April 1 and October 1. The bonds will mature October 1, 2014. The principal amount of bonds outstanding as of June 30, 2003 was \$2,780,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 210,000	\$ 150,674
2005	220,000	138,634
2006	235,000	125,894
2007	245,000	112,454
2008	260,000	98,314
2009-2013	1,065,000	287,365
2014-2015	545,000	35,767
Totals	<u>\$ 2,780,000</u>	<u>\$ 949,102</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. General Obligation Bonds (Continued)

B. General Obligation Public Projects Bonds, Series 1999

The Fiscal Court issued obligations, dated March 1, 1999. Interest is payable having begun on October 1, 1999, and semiannually thereafter on April 1 and October 1 at varying rates from 4.00% to 4.375%.

The bonds issued by the County for the purposes of 1) providing funds to retire the outstanding County of Daviess, Kentucky, Series 1996 Solid Waste System Revenue Bond Anticipation Notes and 2) paying certain costs related to the issuance of the Bonds. The proceeds of the Notes were used to provide for construction and equipment acquisition related to the County's Phase II for development of the County's Solid Waste Landfill, which have been determined to be "public projects" under the Ordinance in accordance with KRS 66.011(17). As of June 30, 2003, bonds outstanding were \$2,845,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 210,000	\$ 118,634
2005	220,000	110,234
2006	225,000	101,434
2007	235,000	92,434
2008	245,000	82,916
2009-2013	1,395,000	253,298
2014	315,000	13,781
Totals	<u>\$ 2,845,000</u>	<u>\$ 772,731</u>

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations

A. Detention Center

On January 21, 2000, the Daviess County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for a detention center. The principal was \$8,000,000 at a variable interest rate for a period of 19 years, with interest paid monthly and principal paid annually. The termination date is July 20, 2019. The principal outstanding as of June 30, 2003, was \$6,819,444. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 331,000	\$ 254,779
2005	342,000	241,443
2006	353,000	227,676
2007	365,000	213,444
2008	377,000	198,743
2009-2013	2,076,000	755,990
2014-2018	2,435,000	310,178
2019	540,444	1,762
Totals	<u>\$ 6,819,444</u>	<u>\$ 2,204,015</u>

B. Transfer Station

On March 23, 1994 the Daviess County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of creating and maintaining a transfer station for the benefit of the County. The principal was \$3,904,000 at a variable interest rate for a period of 10 years, with interest paid monthly and principal paid annually. The termination date is February 1, 2004. The principal outstanding as of June 30, 2003, was \$476,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	476,000	16,614
Totals	<u>\$ 476,000</u>	<u>\$ 16,614</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

C. Landfill

On September 14, 1995, the Daviess County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of creating and maintaining a landfill for the benefit of the County. The principal was \$2,096,000 at a variable interest rate for a period of 10 years, with interest paid monthly and principal paid annually. The termination date is February 1, 2005. The principal outstanding as of June 30, 2003, was \$547,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2004	267,000	26,249
2005	280,000	9,839
Totals	<u>\$ 547,000</u>	<u>\$ 36,088</u>

D. Airport

The Daviess County Fiscal Court entered into a sublease agreement with the City of Owensboro, Kentucky for the purpose of funding debt service – Airport Revenue Bonds – related to the expansion of the Owensboro-Daviess County Airport. The sublease was entered into on June 1, 1995. Under the terms of the sublease agreement, the County agreed to lease certain airport servitude aviation easements and other property and improvements for one half of the base rentals. The County's portion was reduced to 42.24% for fiscal year 2003. Any additional rentals are due to be paid by the City of Owensboro, Kentucky under its sublease agreement. During the fiscal year ended June 30, 2003, the County paid \$153,196 to the City of Owensboro, Kentucky for its share of the sublease. The County's share of principal outstanding as of June 30, 2003, was \$1,570,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 95,000	\$ 91,423
2005	100,000	86,197
2006	105,000	80,598
2007	110,000	74,612
2008	117,500	68,150
2009-2013	702,500	228,391
2014-2015	340,000	30,256
Totals	<u>\$ 1,570,000</u>	<u>\$ 659,627</u>

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 6,025,000	\$	\$ 400,000	\$ 5,625,000	\$ 420,000
Financing Obligations	11,246,841		1,834,397	9,412,444	1,169,000
Governmental Activities					
Long-term Liabilities	<u>\$ 17,271,841</u>	<u>\$ 0</u>	<u>\$ 2,234,397</u>	<u>\$15,037,444</u>	<u>\$ 1,589,000</u>

Note 6. Short-term Debt

In July 2003, Daviess County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$10,691,400, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$41,079.

Note 7. Landfill Closure and Post - Closure Costs

The County operates a landfill in West Louisville, Kentucky. The County must comply with established state and federal landfill operating, closure and post-closure procedures. The landfill opened in January 1996, with an estimated life of 21.67 years. As of June 30, 2003, the estimated remaining life of the landfill was 15.9 years. Estimated closure costs total \$6,075,000, and estimated post-closure care costs total \$5,550,000 or \$185,000 per year. Estimates are based upon 1994 projections, actual costs may be higher due to inflation, changes in technology or changes in regulations.

Daviess County prepares required financial statements on the modified cash basis of accounting in accordance with the laws of Kentucky, therefore no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require the fiscal court to provide financial assurance that landfill closure and post-closure care costs are properly funded. In order to meet financial assurance requirements, the fiscal court reserves a portion of the landfill receipts for landfill closure and post-closure care. For every ton deposited into the County's contained landfill, \$2 is transferred from the Solid Waste Operating Fund into the Solid Waste Closure Fund and \$1 is transferred into the Solid Waste Post-Closure Fund. At June 30, 2003, the Solid Waste Closure Fund had a balance of \$1,928,396 and the Solid Waste Post-Closure Fund had a balance of \$1,159,019.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 8. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at 502-564-4646.

Note 9. Deferred Compensation

On November 9, 1982, the Daviess County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, Kentucky, 40601-8862.

Note 10. Insurance

For the fiscal year ended June 30, 2003, Daviess County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 11. Self-Insurance

The Daviess County Fiscal Court elected to begin a self-funded health insurance plan in April of 2002. This self-funded insurance plan covers all employees. The county pays for 90% of each county employee's coverage, and the employee contributes the remaining 10%. Daviess County elected to purchase a stop-loss insurance policy from Hartford Life and Accident Insurance Company to cover losses from individual and aggregate claims once the county reached the individual and aggregate attachment points. Employees are required to assume liability for claims in excess of maximum lifetime reimbursements established by the insurance company.

Daviess County Fiscal Court contracts with Nyhart for administration of the Health Insurance Fund. The Health Insurance Fund had a balance of \$181,256 as of June 30, 2003. The fund balance consists of excess of premiums and reimbursements over claims paid.

Note 12. Subsequent Events

The County of Daviess entered into a bond issue, County of Daviess, Kentucky General Obligation Public Project Refunding and Improvement Bonds, Series 2003A dated on September 1, 2003 for the purpose (i) financing the acquisition, and installation of an operation complex for the County (the "Operations Complex Project"), (ii) currently refunding and retiring a Lease Agreement dated as of January 21, 2000 (the "Prior Lease") between the County and the Kentucky Association of Counties Leasing Trust, the proceeds of which were used to finance on an interim basis the costs of the acquisition, construction, and installation of a detention facility for the County (the "Detention Facility Project," and together with the Operations Complex Project, the "Series 2003A Project") and (iii) paying costs of issuing the Series A Bonds. The issue amount of the bonds was \$8,720,000. Interest on the bonds will be payable from September 1, 2003, on March 1 and September 1, commencing March 1, 2004, and the Series A Bonds mature on each September thereafter.

The County of Daviess County entered into a bond issue, County of Daviess, Kentucky General Obligation Public Project Bonds, Series 2003B (Transient Room Tax Supported Projected) dated on September 1, 2003 for the purpose of (i) financing the acquisition, construction, and installation of improvements to the Owensboro Museum of Fine Art and the Owensboro Riverpark Center (the "Series 2003B Project") and (ii) paying the costs of issuing the Series B Bonds. The issue amount of the bonds was \$2,270,000. Interest on the bonds will be payable from September 1, 2003, on March 1 and September 1, commencing March 1, 2004, and the Series B Bonds mature each September thereafter.

Note 13. Changes in Accounting Principles

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities was \$73,828,209 and the beginning fund balance was \$14,903,187 for an increase of \$58,925,022 that was due to capital assets previously omitted. The beginning net asset balance of the business-type activities was \$4,466,684 and the beginning cash and cash equivalent balance was \$1,341,782 for an increase of \$4,451,401 that was due to capital assets previously omitted.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 14. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction.

DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2003

DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2003

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,796,500	\$ 7,796,500	\$ 8,359,217	\$ 562,717
In Lieu Tax Payments	1,000	1,000	1,221	221
Excess Fees	800,000	800,000	1,187,505	387,505
Licenses and Permits	136,500	136,500	226,588	90,088
Intergovernmental Revenue	5,928,565	5,928,565	4,683,782	(1,244,783)
Charges for Services	64,000	64,000	69,684	5,684
Miscellaneous	382,600	382,600	631,939	249,339
Interest	375,000	375,000	197,640	(177,360)
Total Revenues	15,484,165	15,484,165	15,357,576	(126,589)
EXPENDITURES				
General Government	5,209,562	5,361,792	4,797,629	564,163
Protection to Persons and Property	2,308,284	2,375,354	2,118,793	256,561
General Health and Sanitation	245,928	249,428	231,845	17,583
Social Services	249,600	297,100	247,765	49,335
Recreation and Culture	1,496,858	1,587,958	1,393,030	194,928
Airports	199,166	54,266	54,166	100
Bus Services	360,000	360,000	309,518	50,482
Debt Service	265,500	418,700	322,286	96,414
Capital Projects	3,691,000	3,716,705	574,658	3,142,047
Administration	9,660,377	8,964,972	3,166,099	5,798,873
Total Expenditures	23,686,275	23,386,275	13,215,789	10,170,486
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	(8,202,110)	(7,902,110)	2,141,787	10,043,897
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	2,500,000	2,500,000		(2,500,000)
Transfers To Other Funds	(1,797,890)	(2,097,890)	(1,756,726)	341,164
Total Other Financing Sources (Uses)	702,110	402,110	(1,756,726)	(2,158,836)
Net Changes in Fund Balances	(7,500,000)	(7,500,000)	385,061	7,885,061
Fund Balances - Beginning	7,500,000	7,500,000	7,827,638	327,638
Fund Balances - Ending	\$	\$	\$ 8,212,699	\$ 8,212,699

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2003
(Continued)

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,203,200	\$ 1,343,200	\$ 1,454,119	\$ 110,919
Miscellaneous	500	500	25,149	24,649
Interest	10,000	10,000	6,729	(3,271)
Total Revenues	<u>1,213,700</u>	<u>1,353,700</u>	<u>1,485,997</u>	<u>132,297</u>
EXPENDITURES				
Roads	2,836,091	3,209,609	2,770,248	439,361
Capital Projects	250,000	31,300		31,300
Administration	25,499	10,681	1,465	9,216
Total Expenditures	<u>3,111,590</u>	<u>3,251,590</u>	<u>2,771,713</u>	<u>479,877</u>
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>(1,897,890)</u>	<u>(1,897,890)</u>	<u>(1,285,716)</u>	<u>612,174</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,797,890</u>	<u>1,797,890</u>	<u>1,500,000</u>	<u>(297,890)</u>
Total Other Financing Sources (Uses)	<u>1,797,890</u>	<u>1,797,890</u>	<u>1,500,000</u>	<u>(297,890)</u>
Net Changes in Fund Balances	(100,000)	(100,000)	214,284	314,284
Fund Balances - Beginning	<u>100,000</u>	<u>100,000</u>	<u>28,509</u>	<u>(71,491)</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 242,793</u>	<u>\$ 242,793</u>

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2003
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 3,300,928	\$ 3,300,928	\$ 3,215,766	\$ (85,162)
Charges for Services	370,000	370,000	311,747	(58,253)
Miscellaneous	130,000	130,000	189,745	59,745
Interest	15,000	15,000	2,647	(12,353)
Total Revenues	3,815,928	3,815,928	3,719,905	(96,023)
EXPENDITURES				
Protection to Persons and Property	4,367,000	4,588,531	4,250,405	338,126
Debt Service	200,000	230,000	229,348	652
Administration	48,928	97,397	8,990	88,407
Total Expenditures	4,615,928	4,915,928	4,488,743	427,185
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)				
	(800,000)	(1,100,000)	(768,838)	331,162
OTHER FINANCING SOURCES (USES)				
Proceeds From Sale of Fixed Assets			75,000	75,000
Transfers From Other Funds		300,000	200,000	(100,000)
Total Other Financing Sources (Uses)		300,000	275,000	(25,000)
Net Changes in Fund Balances	(800,000)	(800,000)	(493,838)	306,162
Fund Balances - Beginning	800,000	800,000	642,032	(157,968)
Fund Balances - Ending	\$	\$	\$ 148,194	\$ 148,194

**Reconciliation of Budgetary Statement To Statement of Revenues,
Expenditures, and Changes In Fund Balances - Governmental
Funds Modified Cash Basis**

Total Revenues Per Budgetary Statement	\$ 3,719,905	
Interest Earned on Detention Center	7,250	\$ 3,727,155
Total Expenditures Per Budgetary Statement	\$ 4,488,743	
Expenses Paid for Detention Center	923,584	5,412,327
Budgetary Statement Proceeds From Sale of Capital Assets		75,000
Budgetary Statement Transfer From Other Funds		200,000
Beginning Fund Balance Per Budgetary Statement	\$ 642,032	
Beginning Fund Balance Per Detention Center Account	916,334	1,558,366
Ending Fund Balance Per Budgetary Statement and Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 148,194

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2003
(Continued)

SOLID WASTE CLOSURE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 30,000	\$ 30,000	\$ 26,023	\$ (3,977)
Total Revenues	30,000	30,000	26,023	(3,977)
EXPENDITURES				
General Health and Sanitation	300,000	300,000	13,976	286,024
Administration	1,575,000	1,575,000		1,575,000
Total Expenditures	1,875,000	1,875,000	13,976	1,861,024
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	(1,845,000)	(1,845,000)	12,047	1,857,047
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	300,000	300,000	290,784	(9,216)
Total Other Financing Sources (Uses)	300,000	300,000	290,784	(9,216)
Net Changes in Fund Balances	(1,545,000)	(1,545,000)	302,831	1,847,831
Fund Balances - Beginning	1,545,000	1,545,000	1,625,565	80,565
Fund Balances - Ending	\$	\$	\$ 1,928,396	\$ 1,928,396

DAVIESS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2003

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

DAVISS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003

DAVIESS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Local Government Economic Assistance Fund	Solid Waste Post Closure Fund	Solid Waste Debt Service Fund	Solid Waste Construction Fund	Daviess County Public Improvement Corporation	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 678,980	\$ 1,159,019	\$ 1,090,224	\$ 85,574	\$ 482,301	\$ 3,496,098
Total Assets	<u>\$ 678,980</u>	<u>\$ 1,159,019</u>	<u>\$ 1,090,224</u>	<u>\$ 85,574</u>	<u>\$ 482,301</u>	<u>\$ 3,496,098</u>
FUND BALANCES						
Fund Balances:						
Reserved:						
Capital Projects Fund	\$	\$	\$	\$ 85,574	\$	\$ 85,574
Special Revenue Fund		1,159,019				1,159,019
Unreserved:						
Special Revenue Fund	678,980					678,980
Debt Service Funds			1,090,224		482,301	1,572,525
Total Liabilities and Fund Balances	<u>\$ 678,980</u>	<u>\$ 1,159,019</u>	<u>\$ 1,090,224</u>	<u>\$ 85,574</u>	<u>\$ 482,301</u>	<u>\$ 3,496,098</u>

THIS PAGE LEFT BLANK INTENTIONALLY

DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003

DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Local Government Economic Assistance Fund	Solid Waste Post Closure Fund	Solid Waste Debt Service Fund
REVENUES			
Intergovernmental	\$ 554,618	\$	\$
Interest	7,385	15,686	21,864
Total Revenues	<u>562,003</u>	<u>15,686</u>	<u>21,864</u>
EXPENDITURES			
General Health and Sanitation			
Roads	351,595		
Debt Service			1,122,915
Total Expenditures	<u>351,595</u>	<u></u>	<u>1,122,915</u>
Excess (deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>210,408</u>	<u>15,686</u>	<u>(1,101,051)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		145,392	332,036
Total Other Financing Sources (Uses)		<u>145,392</u>	<u>332,036</u>
Net Change in Fund Balances	210,408	161,078	(769,015)
Fund Balances - Beginning	468,572	997,941	1,859,239
Fund Balances - Ending	<u>\$ 678,980</u>	<u>\$ 1,159,019</u>	<u>\$ 1,090,224</u>

DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003
(Continued)

Solid Waste Construction Fund	Daviess County Public Improvement Corporation	Total Non-Major Governmental Funds
\$	\$	\$
755	299,340	853,958
755	28,892	74,582
	328,232	928,540
293,041		293,041
		351,595
	362,154	1,485,069
293,041	362,154	2,129,705
(292,286)	(33,922)	(1,201,165)
300,000	56,726	834,154
300,000	56,726	834,154
7,714	22,804	(367,011)
77,860	459,497	3,863,109
\$ 85,574	\$ 482,301	\$ 3,496,098

THIS PAGE LEFT BLANK INTENTIONALLY

DAVISS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2003

DAVIESS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Daviess County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Daviess County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Daviess County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Daviess County reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant – State Administered Small Cities (CFDA #14.228), Health Care Facilities and Other Construction Program (CFDA #93.887) and Title IV-D Child Support Enforcement (CFDA #93.653).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Daviess County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

NONCOMPLIANCES

Reference Number 2003-1

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On June 30, 2003, \$118,860 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Reid Haire's Response:

We will contact banks in order to correct this problem.

REPORTABLE CONDITIONS/MATERIAL WEAKNESSES

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

DAVIESS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003
(Continued)

Summary Schedule of Prior Year Audit Findings

Reference Number 2002-1.

“The County Should Require Depository Institutions To Pledge Or Provided Sufficient Collateral To Protect Deposits.”

This finding was repeated in the current year.

Reference Number 2002-2

“Health insurance expenses of \$25,075 for July through October 2002 were pre-billed on the June 2002 reimbursement request. An invoice was not obtained and paid prior to the submission of the request.”

This finding was corrected.

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2003

Federal Grantor

Program Title

Grant Name (CFDA #)

Pass-Through

Grantor's Number

Expenditures

Cash Programs :

U.S. Department of Housing and Urban Development

Passed-Through State Department
for Local Government

Community Development Block Grants -
State Administered Small Cities Program

Yellow Creek Sewer

(CFDA #14.228)

00-032

\$

997,000

U.S. Department of Justice

Passed-Through State Department Of
Justice:

Victim's Assistance Program

(CFDA #16.575)

Unavailable

17,550

U.S. Environmental Protection Agency

Passed-Through State-Department for
Environmental Protection:

Special Purpose Program -

Special Appropriations Grant

(CFDA #66.606)

XP97489603-0

37,805

U. S. Federal Emergency Management Agency

Passed-Through State Department
of Military Affairs:

Disaster and Emergency

Assistance Grant-

Coordinator Salary

(CFDA #83.544)

FEMA-1163-DR-KY

23,362

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2003
(Continued)

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs: (Continued)		
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Health Care Facilities and Other		
Construction Program-		
Community Health Center		
(CFDA #93.887)	1C76HF00314-01	\$ 1,584,432
Passed-Through State Cabinet for Families		
and Children:		
Title IV-D Child Support Enforcement		
Program		
(CFDA #93.563)	M-022-0 4047	<u>373,299</u>
Total U.S. Department of Health and Human Services		<u>\$ 1,957,731</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 3,033,448</u></u>

DAVIESS COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Daviess County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures by Daviess County Fiscal Court for Community Development Block Grant – State Administered Small Cities Program and the Health Care Facilities and Other Construction Program includes awards to subrecipients as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
Community Development Block Grant- State Administered Small Cities Program	14.228	Regional Water Resource Agency	\$ 960,000
Health Care Facilities & Other Construction	93.887	County Health Department	1,584,432

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Daviess County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- 2003-1 The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Daviess County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 22, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Daviess County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Daviess County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Daviess County's management. Our responsibility is to express an opinion on Daviess County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Daviess County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Daviess County's compliance with those requirements.

In our opinion, Daviess County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Daviess County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Daviess County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 22, 2004

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

DAVIESS COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

DAVIESS COUNTY FISCAL COURT

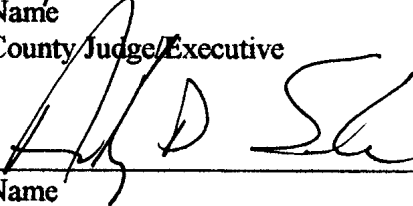
For The Fiscal Year Ended June 30, 2003

The Daviess County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

